

MEMORANDUM

To: EEU E-mail Service List
All Fuels E-mail Service List

From: Judith C. Whitney, Deputy Clerk of the Board

Re: Workshop Regarding Cost-Effectiveness Screening of Heating and Process-Fuel Efficiency Measures

Date: April 16, 2009

The Public Service Board ("Board") has directed Board staff to conduct a workshop at 10:00 A.M. on Tuesday, May 12, 2009, to begin the consideration of issues associated with the cost-effectiveness screening of heating and process-fuel efficiency measures. The workshop will be held in the Board's Third Floor Hearing Room, Chittenden Bank Building, 112 State Street, Montpelier. All interested persons are invited to attend.

In order to improve the quality of the discussion at the workshop, the Board requests that interested persons file written comments by May 7, 2009, on: (1) whether the Board has identified the appropriate issues; (2) initial thoughts on the process to be used to consider these issues; (3) the Energy Efficiency Utility's ("EEU") participation in the process to consider these issues; and (4) whether there are any other topics that should be discussed at the workshop. These comments should be circulated electronically to the above e-mail lists.

Background

In 2008, new legislation was enacted that directed Vermont's EEU to use the net revenues it receives from its activities in the regional Forward Capacity Market ("FCM") to deliver energy efficiency services to heating and process-fuel customers.¹ Cumulative FCM revenues exceeded costs for the first time in the fall of 2008. Around that time, the

¹See 30 V.S.A. § 209(d)(7).

Board approved the use of net FCM revenues for four specific programs aimed at acquiring heating-fuel efficiency.² When the Board approved these programs, it encouraged their rapid implementation in order to provide assistance to Vermonters in the 2008-2009 winter season.³ Since that time, the Board has approved Efficiency Vermont's 2009-2011 Annual Plan, which includes a description of the heating and process-fuel efficiency services Efficiency Vermont intends to provide during that time period.⁴

In the fall of 2008, the Board engaged in negotiations with Vermont Energy Investment Corporation ("VEIC"), the contractor serving as Efficiency Vermont, to extend the term of the contract for an additional three years, until December 2011. These negotiations were the first time Efficiency Vermont's heating and process-fuel efficiency activities were fully integrated into the Board's contract with VEIC.

In the course of these contract negotiations, questions arose regarding the cost-effectiveness screening of heating and process-fuel efficiency measures. These questions are related to whether the methodology and assumptions incorporated in the current cost-effectiveness screening tool that is used by Efficiency Vermont in reviewing electric efficiency measures are appropriate when evaluating heating and process-fuel efficiency measures. The questions stem from the fact that the current cost-effectiveness screening tool that is used by Efficiency Vermont has evolved over time based on decisions made by the Board in the context of electric and gas energy efficiency programs. For example:

- In Docket 5270 (the Board's original investigation into electric and natural gas energy efficiency), the Board determined, among other items, that it was appropriate to include certain adjustments for environmental externalities and risk when evaluating the cost-effectiveness of energy efficiency measures.
- In Docket 5980 (the Board's investigation that resulted in the creation of the EEU), the Board approved: (1) a change in the adjustment for environmental externalities for electric system-wide programs; and (2) the development by the Vermont Department of Public Service ("DPS") of externalities adders for fuel-consuming end-use efficiency measures.
- Most recently, in 2007, the Board approved new avoided costs for use by the EEU; while these did include avoided costs for unregulated fuels, those costs

²See Order of 11/10/08 Re Heating System Replacement Initiative and Energy Auditor and Installer Training and Order of 11/12/08 Re Comprehensive Home Energy Efficiency Loan Program and Grassroots Community Energy Mobilization Program.

³See Order of 11/10/08 Re Heating System Replacement Initiative and Energy Auditor and Installer Training at 8.

⁴Letter from James Volz, Chairman, Board, to Scott Johnstone, Executive Director, Vermont Energy Investment Corporation, dated March 19, 2009, at 2.

did not receive the same level of scrutiny because they were expected only to be used in cases of fuel switching and such cases were expected to be rare.

The Board considers questions related to cost-effectiveness screening to be broad policy issues, and therefore more appropriately addressed by all interested parties in a public forum, rather than in contract negotiations between the Board and VEIC. Therefore, the Board has directed Board staff to conduct a process to consider these issues. This process could result in a Board determination that it is appropriate to use the same methodology and assumptions for evaluating heating and process-fuel efficiency measures that Efficiency Vermont now uses to evaluate electric measures, or it could result in the future use of a different methodology or assumptions for evaluating heating and process-fuel efficiency measures than are currently used by Efficiency Vermont for electric measures.

Issues to Be Considered

The issues related to the cost-effectiveness screening of heating and process-fuel efficiency measures that arose during contract negotiations are described below. This list is provided as a starting point for discussions at the workshop. Workshop attendees should be prepared to discuss whether these questions should be considered in this process as well as whether there are other issues that should be examined in this process. We will also request that Efficiency Vermont provide a brief summary of its current practices.

Questions related to cost-effectiveness screening of heating and process-fuel efficiency measures include:

- **Avoided costs** — The Board is aware that the New England states are currently conducting a new avoided cost study that is expected to be completed in August 2009. Previous regional avoided cost studies have served as the basis for the DPS's recommendations regarding changes to avoided costs for the EEU. The Board does not expect to consider new avoided costs until this study is complete; however, it may be helpful at the present time to identify areas of concern related to the determination of avoided costs for unregulated fuels so that the DPS can consider whether the regional study will address those issues or whether additional Vermont-specific work would be appropriate to address them.
- **Costing Periods** — The costing periods for electric efficiency measures are linked to the costing periods used in the regional wholesale power market. What, if any, costing periods should be used for heating and process-fuel efficiency measures?
- **Risk Adjustment** — Is the risk adjustment that the Board approved in Docket 5270 (a 10 percent discount to the price of demand-side options) appropriate to use when screening heating and process-fuel efficiency measures? What

options deserve a risk-premium adjustment, if any, in the context of programs that promote heating and process-fuel efficiency?

- Environmental Externalities — Are the environmental externality values currently used by Efficiency Vermont for fuel-consuming end-use efficiency measures appropriate to use when screening heating and process-fuel efficiency measures?⁵
- Relationship to Screening of Electric and Gas Efficiency Measures — Do any of the issues raised regarding the cost-effectiveness screening of heating and process-fuel efficiency measures affect how cost-effectiveness screening of electric or natural gas efficiency measures is performed? Is it administratively inefficient to have different screening policies or practices for heating and process-fuel efficiency measures than for electric measures?

Process to Be Used

Workshop attendees should be prepared to discuss what process the Board should use to fully explore issues related to cost-effectiveness screening of heating and process-fuel efficiency measures. Some possibilities are: paper filings only; a workshop process that could include paper filings; or a formal proceeding with hearings. Workshop attendees may also suggest other processes not included in this list. The likely outcome of whichever process is selected would be a Board order resolving the issues under consideration in the process.

The Board is aware that changes are made to the cost-effectiveness screening tool on an annual basis, to take effect on January 1. In order to minimize the administrative costs associated with making changes to the cost-effectiveness screening tool, the Board would like to conclude this process in time to enable any changes resulting from it to be implemented at the same time. Workshop attendees should be prepared to discuss a schedule for this process with this goal in mind.

The Board has also considered the question of how the EEU should participate in this process. The Board has generally restricted Efficiency Vermont's participation in Board proceedings to technical support and comments on the effects of issues and options under consideration on Efficiency Vermont's operations.⁶ However, the Board believes it would be helpful to remove this restriction for this process, because the discussion involves a significant change in the services delivered by the EEU, and it would be valuable to hear the implementer's perspective on the issues. Removing this restriction would provide

⁵These values were developed by the DPS, pursuant to Paragraph 51 of the Memorandum of Understanding that was approved by the Board in Docket 5980; the Board did not review or approve the specific externality values.

⁶The reason the Board restricted Efficiency Vermont's participation was to avoid even the perception of a conflict of interest resulting from the Board's contractual relationship with Efficiency Vermont.

VEIC, the entity serving as the EEU, with the opportunity to participate in activities related to this topic in the same manner as any other participant. Before making a final decision on this issue, the Board requests that interested persons file comments on this proposed approach to VEIC's participation, and that workshop attendees be prepared to discuss this issue.